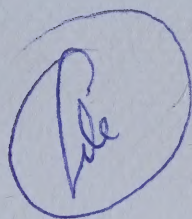


AR43



Finlayson Enterprises Ltd.



Annual Report

1980



Finlayson Enterprises Ltd.

DIRECTORS

G. A. BODDY – Fergus, Ontario
F. B. BROOKS-HILL – Oakville, Ontario
I. E. FINLAYSON – Toronto, Ontario
R. H. HOPPE – Montreal, Quebec
J. C. LONGWORTH – Toronto, Ontario
D. A. McINTOSH, Q.C. – Toronto, Ontario
R. G. WILSON – Burlington, Ontario

OFFICERS

D. A. McINTOSH, Q.C. *Chairman of the Board*
I. E. FINLAYSON, *President*
J. C. LONGWORTH, *Vice-President and Treasurer*
R. G. WILSON, *Vice-President*
H. SUTHERLAND, Q.C., *Secretary*

HEAD OFFICE

833 Oxford Street, Toronto, Ontario, Canada M8Z 5X4

REGISTRAR AND TRANSFER AGENT

CANADA PERMANENT TRUST COMPANY
Toronto, Ontario
Winnipeg, Manitoba

BANKERS

THE BANK OF NOVA SCOTIA
Toronto, Ontario



Finlayson Enterprises Ltd.

To the Shareholders of
FINLAYSON ENTERPRISES LTD.

I am pleased to report that 1980 was a year of record sales and profit for your Company.

Company sales reached a level of \$14,894,375 or a 36% increase over 1979. Net income after all items rose from \$173,746 in 1979 to \$441,529 in 1980. This represents a 22.3% return on opening 1980 equity. Based on shares outstanding at year end, earnings per share increased from \$1.75 in 1979 to \$5.19 in 1980. Your Board of Directors has authorized the payment on May 1, 1981 of an extra dividend of 10¢ per share to all common shareholders of record as of April 15, 1981.

Despite the rather unsettled economy and continuing high interest rates, consumer demand for your Company's products remained strong. In the toiletries and cosmetics group, sales of Cezanne Cosmetics and of the Rochas, Pierre Cardin and Carven fragrances generated a large swing in profit over 1979. This group began to sell Morny Fine English Soaps during the past year.

The textile group experienced a strong year. The large increase in sales of Spring Maid sheets and comforters has established a strong position for this product line in Canada. Substantial progress was made during the year in the market development of Spring Maid Retail Fabrics. The Carters Infants Wear line achieved record sales while the "By Beauty" line of pants, bibs and sleepwear continued its major role in the marketplace.

Your Company acquired Upper Canada Soap & Candle Makers Limited during 1980. This subsidiary sells to the gift and bath shop trade a diversified line of soap, candles, and up-market potpourri items. A growing aspect of this business is the worldwide export potential. Currently, exports are made to agents in eight countries. Sales and profits for this subsidiary for the last six months of 1980 are incorporated into the Company results.

It is premature to forecast accurately trends developing for the year 1981. The retail trade has reduced inventory levels to reflect both weak consumer demand and also their higher financing costs. Divisional management is confident, however, that 1981 should show good results. Certainly, the key to success will involve an accurate assessment of consumer buying attitude and confidence in light of continuing inflation and high living costs. Your Company will continue to explore and develop growth opportunities. Prudent expansion of the Company's product lines will be undertaken when such action will help improve the return on shareholders' equity.

I.E. FINLAYSON
President

March 9th, 1981

AUDITORS' REPORT

To the Shareholders

FINLAYSON ENTERPRISES LTD.

We have examined the consolidated balance sheet of Finlayson Enterprises Ltd. as at 31 December 1980 and the consolidated statements of retained earnings, income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at 31 December 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
9 March 1981

DUNWOODY & COMPANY
Chartered Accountants



ASSETS

	1980	1979
CURRENT		
Accounts receivable	\$3,271,834	\$2,588,054
Inventories, note 1	3,117,097	2,418,287
Prepaid expenses	191,969	207,383
	<u>6,580,900</u>	<u>5,213,724</u>
FIXED, note 1		
Equipment, automotive equipment and leasehold improvements	1,006,312	930,553
Accumulated depreciation	684,813	611,072
	<u>321,499</u>	<u>319,481</u>
OTHER		
Goodwill, notes 1 and 2	72,529	—
Approved on behalf of the Board:		
D. A. McINTOSH, <i>Director</i>		
J. C. LONGWORTH, <i>Director</i>		
	<u>\$6,974,928</u>	<u>\$5,533,205</u>

at 31 December 1980

LIABILITIES

	1980	1979
CURRENT		
Bank indebtedness, note 3	\$2,144,581	\$1,925,236
Notes payable, note 4	221,004	134,323
Accounts payable	1,889,671	1,407,664
Withholding taxes	66,836	48,721
Income taxes	253,598	12,906
	<u>4,575,690</u>	<u>3,528,850</u>
DEFERRED INCOME TAXES, note 1	20,100	21,612
	<u>4,595,790</u>	<u>3,550,462</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL, note 5

Authorized		
2,150,941 6% cumulative preferred shares redeemable at the amount paid thereon		
116,133 Common shares		
Issued		
622,536 Preferred shares	622,536	622,536
77,817 Common shares	281,671	281,671
	<u>904,207</u>	<u>904,207</u>
RETAINED EARNINGS	1,474,931	1,078,536
	<u>2,379,138</u>	<u>1,982,743</u>
	<u>\$6,974,928</u>	<u>\$5,533,205</u>

COMMITMENTS, note 6

CONTINGENT LIABILITY, note 7

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS, note 8

CLASSES OF BUSINESS, note 10



Finlayson Enterprises Ltd.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended 31 December 1980

	1980	1979
BALANCE, BEGINNING OF YEAR	\$ 1,078,536	\$ 949,924
Net income for the year	441,529	173,746
	<u>1,520,065</u>	<u>1,123,670</u>
Dividends		
Preferred	37,352	37,352
Common	7,782	7,782
	<u>45,134</u>	<u>45,134</u>
BALANCE, END OF YEAR	<u>\$ 1,474,931</u>	<u>\$ 1,078,536</u>

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended 31 December 1980

	1980	1979
SALES	<u>\$14,894,375</u>	<u>\$10,984,762</u>
INCOME FROM OPERATIONS BEFORE UNDERNOTED ITEMS ...	<u>\$ 1,152,242</u>	<u>\$ 354,996</u>
Interest	266,147	149,127
Depreciation and amortization of fixed assets	72,506	68,043
Amortization of goodwill	8,060	—
	<u>346,713</u>	<u>217,170</u>
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	<u>805,529</u>	<u>137,826</u>
Income taxes		
Current	365,512	33,275
Deferred	(1,512)	—
	<u>364,000</u>	<u>33,275</u>
INCOME BEFORE EXTRAORDINARY ITEMS	<u>441,529</u>	<u>104,551</u>
Extraordinary items		
Income taxes recovered on loss carry forward	—	3,500
Excess of proceeds over cash value of life insurance policies	—	65,695
	<u>—</u>	<u>69,195</u>
NET INCOME FOR THE YEAR, note 9	<u>\$ 441,529</u>	<u>\$ 173,746</u>



Finlayson Enterprises Ltd.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended 31 December 1980

	1980	1979
SOURCE OF FUNDS		
Operations		
Income before extraordinary items	\$ 441,529	\$ 104,551
Items not involving funds		
Depreciation and amortization of fixed assets	72,506	68,043
Amortization of goodwill	8,060	—
Loss (gain) on disposal of fixed assets	710	(696)
Deferred income taxes	(1,512)	—
	<u>521,293</u>	<u>171,898</u>
Proceeds on life insurance policies	—	135,000
Proceeds on disposal of fixed assets	5,862	16,715
Income tax reduction on application of prior years' losses	—	3,500
	<u>527,155</u>	<u>327,113</u>
APPLICATION OF FUNDS		
Acquisition of fixed assets	66,352	50,783
Working capital deficiency on acquisition of subsidiary company ...	66,464	—
Acquisition of subsidiary company, note 2	28,869	—
Increase in cash value of life insurance policies	—	2,628
Dividends	45,134	45,134
	<u>206,819</u>	<u>98,545</u>
INCREASE IN WORKING CAPITAL	<u>320,336</u>	<u>228,568</u>
Working capital, beginning of year	1,684,874	1,456,306
WORKING CAPITAL, END OF YEAR	<u>\$ 2,005,210</u>	<u>\$ 1,684,874</u>
Represented by		
Current assets	\$ 6,580,900	\$ 5,213,724
Current liabilities	4,575,690	3,528,850
	<u>\$ 2,005,210</u>	<u>\$ 1,684,874</u>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 1980

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies of the Company:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Beauty Creations Limited, Upper Canada Soap & Candle Makers Limited and inactive subsidiary companies all of which are wholly owned.

(b) Foreign Exchange

Current assets and liabilities in foreign currencies are converted at either the rate of exchange in effect as at the balance sheet date or the rates determined in future foreign exchange contracts held.

(c) Inventories

Finished goods are stated at the lower of cost and net realizable value. Other inventories are stated at the lower of cost and replacement cost which is not in excess of net realizable value. Cost is generally determined on a first-in, first-out basis.

(d) Fixed Assets

Fixed assets are recorded at cost and depreciation and amortization are provided at the following annual rates:

Equipment	—20% diminishing balance basis or 10% straight line basis
Automotive equipment	—30% diminishing balance basis
Leasehold improvements	—straight line basis over term of lease

(e) Other Assets

The goodwill, being the cost of the subsidiary plus the net liabilities assumed, is being amortized on a straight line basis over five years.

(f) Deferred Income Taxes

Deferred income taxes result from claiming capital cost allowance for income tax purposes in excess of depreciation recorded in the accounts.

2. ACQUISITION

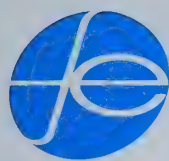
Effective 1 July 1980 the Company acquired 100% of the outstanding shares of Upper Canada Soap & Candle Makers Limited (formerly Leyen Corporation Limited). The subsidiary's activities are in the toiletries and giftware industry and its operations for the six months ended 31 December 1980 are included in the consolidated financial statements. Details of the acquisition, which has been accounted for by the purchase method, are as follows:

Total assets	\$ 337,801
Total liabilities	389,521
Net liabilities assumed	51,720
Goodwill, note 1	80,589
Cash consideration	\$ 28,869

3. BANK INDEBTEDNESS

	1980	1979
Bank overdraft	\$ 407,581	\$ 338,236
Bank loan	1,737,000	1,587,000
	<u>\$2,144,581</u>	<u>\$1,925,236</u>

The bank loan is secured by a general assignment of book debts.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 1980

4. NOTES PAYABLE

	1980	1979
Payable to shareholders, interest at bank prime rate	\$ 166,323	\$ 134,323
Other, interest at 12% on the first \$15,000 and bank prime rate plus 1½% on the balance	54,681	—
	<u>\$ 221,004</u>	<u>\$ 134,323</u>

5. SHARE CAPITAL

(a) Options

The Company has granted options during the year to certain officers to purchase 7,000 common shares at \$5.25 per share. The options expire on 9 October 1985.

(b) Continuance

During the year the Company obtained a certificate of continuance under the provisions of the Canada Business Corporations Act, whereby the par value of the preferred shares and the aggregate consideration for the common shares were deleted under the provisions of the Act.

6. COMMITMENTS

The Company and its subsidiaries are committed to total minimum rentals in the amount of \$1,543,500 under operating leases for land, building and data processing equipment which expire from 1983 to 1990. Commitments for each of the next five years are approximately \$195,000.

A subsidiary company is also committed to purchase data processing equipment and software applications totalling approximately \$135,000.

7. CONTINGENT LIABILITY

Certain of the group companies have unsuccessfully appealed from a decision of the Tax Review Board upholding income tax re-assessments totalling approximately \$270,000 including interest for the years 1966 to 1968. A further appeal has been instituted and no provision has been made in the accounts for these re-assessments as it is the opinion of counsel that the companies should probably be successful in having the re-assessments set aside.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

As defined in The Securities Act (Manitoba), the aggregate direct remuneration paid or payable to the directors and senior officers, which includes the remuneration of the five highest paid employees, amounted to \$567,632 (1979 - \$239,290).

9. EARNINGS PER COMMON SHARE

	1980	1979
Income before extraordinary items	\$5.19	\$0.86
Extraordinary items	—	0.89
Net income for the year	<u>\$5.19</u>	<u>\$1.75</u>

If the options granted to purchase common shares had been exercised, the fully diluted earnings per common share for 1980 would have been \$4.78.

For purposes of calculating the fully diluted earnings per common share the earnings were increased by the interest, after income taxes, on the funds that would have been received had the options been exercised and the number of common shares was increased to reflect the shares under option.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 1980

10. CLASSES OF BUSINESS

The directors of the Company are of the opinion that the operations are primarily domestic and have determined by resolution the classes of business based on its divisional operations. A summary of the operations and identifiable assets by classes of business is as follows for 1980:

Sales:

Importation and manufacture of:

Textiles	\$10,476,516
Toiletries and giftware	4,417,859
	<u>\$14,894,375</u>

Contribution to earnings:

Importation and manufacture of:

Textiles	\$ 625,265
Toiletries and giftware	484,187

Operating income	<u>1,109,452</u>
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Unallocated expenses:

Interest expense	266,147
Unallocated corporate expenses	37,776
	<u>303,923</u>

Income before income taxes and extraordinary items	<u>\$ 805,529</u>
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Depreciation and amortization deducted above:

Importation and manufacture of:

Textiles	\$ 32,818
Toiletries and giftware	38,463
Corporate	9,285

	<u>\$ 80,566</u>
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Allocation of assets:

Importation and manufacture of:

Textiles	\$ 4,525,624
Toiletries and giftware	2,422,064
Other corporate assets	27,240

	<u>\$ 6,974,928</u>
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